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C O N F I D E N T I A L CARACAS 000526

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

E.O. 12958: DECL: 01/12/2017
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)
SUBJECT: CUBAN OIL CONCERNS RESURFACE

REF: A. CARACAS 102

[1](#)B. CARACAS 218

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (U) Action Requested. Please see paragraph 10.

[1](#)2. (C) SUMMARY: A senior PDVSA official indicated that the Petrozuata upgrader, which is operated by ConocoPhillips, would be required to process non-Venezuelan crude in the near future. It is not clear where the crude would come from, but U.S. oil companies and the Embassy are concerned that it could come from a state subject to U.S. sanctions, i.e., Cuba or Iran. Once the migration of the strategic associations is completed and PDVSA has assumed operational control of all of the upgraders, it will be much easier for the BRV to force its private sector partners (half of which are U.S. oil companies) to process oil from outside sources. Embassy requests Department examine the various legal implications of a possible BRV demand to upgrade Cuban or Iranian crude oil as well as the implications of a direct sale of syncrude to Cuba or Iran by a joint venture in which U.S. oil companies have a minority stake. END SUMMARY.

NEW CONCERNS ON CUBAN OIL

[1](#)3. (C) As reported in Reftel A, ConocoPhillips (CP) told the Embassy that it was concerned that PDVSA would try to upgrade Cuban or Iranian crude oil at the Petrozuata strategic association's upgrader. CP is the operator of both the Petrozuata and Hamaca strategic associations. The company was concerned that upgrading Cuban or Iranian crude at Petrozuata would place CP in violation of U.S. law. Energy Vice Minister Bernard Mommer later reassured CP that Cuban crude oil would not be shipped to Petrozuata for processing (Reftel B).

[1](#)4. (C) In an interview published in the March 2 edition of the El Universal newspaper, CVP President and PDVSA director Eulogio Del Pino stated that "we recently had the opportunity to place foreign crude in Petrozuata and the operator denied it." He went on to note that the low level of operations at the upgrader was causing corrosion problems. When asked if it would be possible after the promulgation of the nationalization decree to upgrade outside crude, Del Pino responded, "Yes, and we are going to do it."

[1](#)5. (C) Energy Minister Rafael Ramirez was quoted in the March 6 edition of El Universal newspaper as stating that his

ministry would issue instructions that the strategic associations' infrastructure, including the upgraders, be used in an "open manner." He was quoted as stating that this did not necessarily mean that imported crude would be processed in the upgraders but that PDVSA had studied the possibility of processing foreign crudes that were similar to those in the Faja region. Ramirez was emphatic that PDVSA would control the marketing of Faja crude and that it would determine the destination of exports. As a result, it is possible that product from the upgraders could be shipped to Cuba or Iran over the objections of IOCs.

EXXONMOBIL'S VIEWS ON THE SITUATION

¶16. (C) ExxonMobil (XM) executives told the Petroleum Attache on March 6 that Minister Ramirez told them the previous day that the upgraders would be operated in a common or joint manner. It appears the BRV plans on running the four upgraders as a single unit. The XM executives opined that this would be a disaster from the standpoint of operations. The executives stated Ramirez acted in a very arrogant manner and basically told them that the recent nationalization decree allowed his ministry and PDVSA to run the upgraders and associations in any manner they wished. The executives came away with the impression that the BRV officials were basically daring XM to take them to arbitration.

¶17. (C) When Petatt raised the possibility of processing imported crude in the upgraders, the XM executives immediately raised the issue of processing Cuban crude in Petrozuata. In their opinion, once the migration to strategic associations has occurred, there is basically nothing the international oil companies could do to stop PDVSA from upgrading Cuban or Iranian crude in one of the four Faja upgraders. They added that if the upgraders were operated as a common unit, they did not believe that the private sector partners would have any idea on the origin of the crude being processed at their individual upgrader.

COMMENT

¶18. (C) BRV officials' recent comments and arrogance concerning the use of the upgraders have three possible explanations. The first is that they are merely trying to bully or pressure the IOCs in the strategic associations to accept their migration terms without a fight. A more ominous interpretation is that the BRV is actually floating a trial balloon to see how the IOCs, and possibly the USG, react to the idea of upgrading Cuban or Iranian oil in facilities that are partially owned by U.S. companies. Lastly, the best explanation may be a combination of both interpretations.

¶19. (C) We also find Ramirez' marketing comments troublesome. After the migration, it is not clear if the PDVSA-controlled joint ventures will market their crude via PDVSA or merely sell all of their output to PDVSA. If the joint ventures market their own crude directly and sell it to Cuba, IOCs may be liable under U.S. laws. We believe BRV officials have not factored U.S. sanctions legislation into their calculations nor do we believe that they are sophisticated enough to do so at a later date.

ACTION REQUEST

¶10. (C) Action Requested: that Department provide us with an answer to CP's original question as to whether the upgrading of Iranian or Cuban crude oil in an upgrader in which a U.S. company has an ownership stake would violate U.S. laws or regulations. In addition, per paragraph 9, we request guidance on the issue of the direct sale of upgraded crude to Cuba or Iran by a joint venture in which a U.S. oil company has a minority stake. Post believes we should achieve clarity in the legal issues at stake now, because it appears quite likely that we will be confronted with the reality of a

U.S. oil company being forced to process crude from a state subject to U.S. sanctions. We also believe there is a strong possibility that PDVSA will directly market upgraded crude oil from a joint venture with U.S. participation to a state that is subject to U.S. sanctions.

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